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Feed Sector Production Update

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Grain and Feed

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Report Highlights:

The Russian feed sector is continuing to develop, supported by strong growth in the livestock and poultry sectors and the introduction of new technologies and improved quality. Despite this, major weaknesses in the sector remain, including outdated facilities and technologies, insufficient domestic production facilities for acids and vitamins, and a lack of sufficient domestic production of certain feed grains and oilseeds. At the 8th International Conference "Compound Feeds-2014" in June 2014, presenters from the Ministry of Agriculture, the feed industry and various businesses commented on opportunities and constraints for the feed sector in Russia.

General Information:

Overview

The 8th International Conference “Compound Feeds-2013” was held June 23-25, 2014 in Moscow, Russia, and was organized by the Russian Ministry of Agriculture, the Russian Feed Union, the All-Russian Scientific Feed Institute, and the International Industrial Academy. The conference brought together government officials from both federal and local levels, as well as participants from various Russian regions, including regional agricultural leaders, scientists and technologists, and representatives from foreign countries, such as Germany, Belgium, the United States, the Netherlands, and others.

At this conference, speakers presented on the current state and future prospects of feed production in Russia. The general tone of the conference and message of the presenters was the positive trends in the feed sector, and the significant development potential for feeds in Russia. Recent growth has been driven by the National Agricultural Development Program 2008-2012, which spurred strong growth in poultry and swine production. Since 2008, annual feed production demonstrated sustained annual growth from 7-10 percent.

Despite solid growth, as at past conferences, speakers also pointed out a number of obstacles to the further development of the feed sector in Russia, including:

- High sensitivity of the sector to the fluctuations in the grain market (which can experience significant swings in production due to climatic conditions of Russia);
- Lack of professional feed systems in the livestock sector;
- Insufficient production of certain feed grains, legumes, and oilseeds domestically;
- Poor digestibility of domestic feed as it typically has too high of a concentration of grain and too little protein;
- Lack of modernization in feed facilities and lack of innovative technologies;
- Deficit of professionals in feed production and animal nutrition.

Positive growth trends in feed production are expected to continue as a result of government efforts to continue to support livestock production in the new Government Program for Agricultural Development for 2013-2020.

Russian Feed Union Presentation

A report on the current developments of the feed sector in Russia came from Valeriy Afanasyev, President of the Russian Feed Union. According to the Union's data, annual production growth in the sector since 2008 is estimated at 2.5 MMT per year and this has been driven by feeds for poultry and pork. The total production of compound feed, for CY2013 is forecast at 21.733 MMT which is 1.7 MMT higher than in 2012.

Table 1: Dynamics of Feed Production in Russia, 2008-2013

Product Title	Production of compound feeds, 1,000MT				
	2009	2010	2011	2012	2013
Compound Feed, total	14.7	16.6	17.9	20.0	21.7
Including					
Poultry	8.6	9.7	10.6	12.1	12.6
Swine	3.8	4.8	5.1	6.2	7.1
Livestock	1.9	1.9	2.2	2.1	2.0
Other types of ag animals	392	183	57	79	87
Vitamins and minerals	118	141	179	275	215
Premixes	52	98	126	171	189

Source : Rosstat

Mr. Afanasyev said that the major challenge for the sector is the tendency of agricultural holdings to vertical integration where feed facilities become part of these holdings. As a result the feed sector is not developing as an independent industry. Additionally, the feed sector has no competition which has a bad effect on the feed quality.

Production structure in the Russian feed sector is dominated by feed for poultry and swine industries, as these sectors have been demonstrating a steady growth. According to the President of the Russian Feed Union, the reason for a slow development of livestock in Russia is a lack systematic approach to feed base.

He also reported that biological components (vitamin preparation, amino acid, ferments probiotics) are being used more extensively in feed ratios in modern feed for agricultural animals. As a result of implementation of the industry specific programs for poultry and swine sectors under the Government program for the development of agriculture and regulation of agricultural production market and raw material for 2008-2012, production of premixes and vitamin and mineral has increased as well as investment attractiveness. Since 2009, vitamin and mineral production has increased by 82 percent and production of premixes - almost by 4 times. Trade sources report, that the main obstacle for effective production of premixes now is a lack of raw material. Imports of vitamin preparations are accounted for 100 percent, as well as amino acids, such as lysine and threonine, and feed fermented preparations. The prices for these products have increased therefore contributing to the prices of pork and beef. According to Mr. Afanasyev, one of the major objectives is to revive domestic microbiological sector after collapse of the Soviet Union.

Regulation in the sector is also in need of improvement. The Technical Regulation "For Safety of Feed

and Feed Additives” has not been approved to date. The public hearing was closed in August 2011, however, there is still no amended draft out for public comment.

Mr. Afanasyev reported that 295 major feed production facilities operate currently in Russia. In addition, the Union estimates there are about 193 feedlot operations with smaller annual capacities (see Chart 2 for breakout). Feed production is concentrated in Central Federal district, specifically in Belgorod oblast with 18.5 percent produced there by volume, followed by North Western Federal District, Leningrad oblast, with 6.8 percent, and the Siberian Federal District Chelyabinsk oblast with 4.7 percent. The Central Federal district is where poultry and swine production is concentrated in Russia, and this is why it dominates in feed production (see Chart 3).

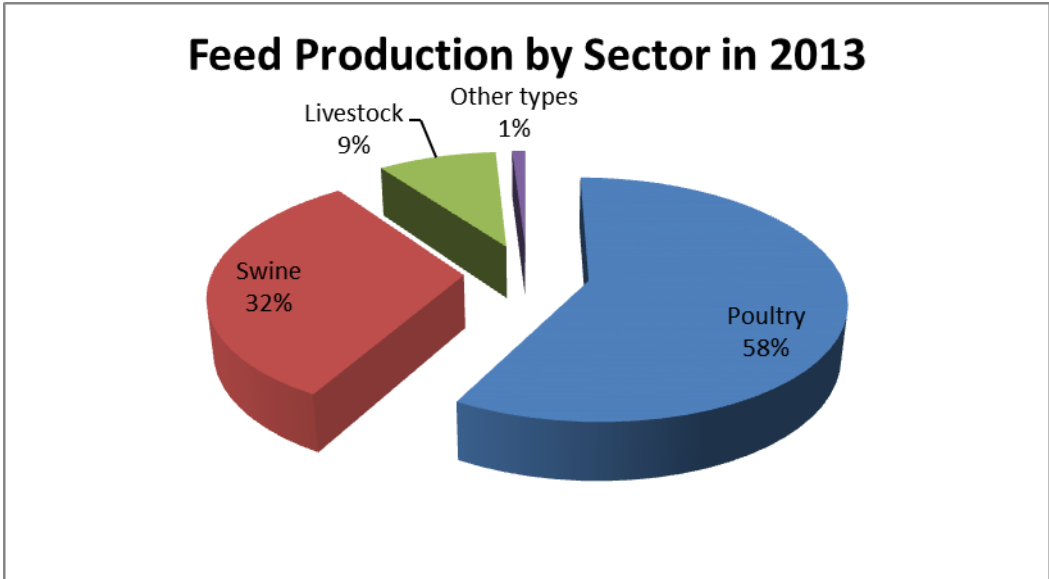
Mr. Afanasyev highlighted problems facing the sector. He emphasized that as a result of use of non-balanced feed ratios in terms of proteins and amino acids, animals in Russia often have to consume twice the amount of feed in volume as those prescribed in the norms in other countries. He presented the answer as creating more balanced feeds in Russia in incorporating by-products from the food industry in the production of feeds, for example using corn gluten, molasses, dried sugar beet chips, brewing waste and distillers dried grains. Currently, the feed union estimates the share of grain in animal feeds in Russia at 70 percent, compared to just 40-45 percent on average in the European Union (See Charts 4-5). Because of the higher percentage of grain in the feed rations, large fluctuations in grain prices can severely impact feed prices, as happened in 2012.

For premixes and biological mineral concentrates, although the production of these continue to climb rapidly in Russia, the country is still dependent on imports of raw materials, mainly for vitamins and amino-acids, as well as ferment preparations. This need for imported inputs increases the overall cost of feed in Russia.

In conclusion, Mr. Afanasyev noted the fact that Federal Program on the Development of Agriculture in 2013-2020 lacks any specific subprogram for the feed sector. Although it does support livestock and poultry production, there is no specific program for feed. Mr. Afansayev stated that the Russian Feed Union is trying to work with and convince the Ministry of Agriculture to create a subprogram for feed. However, there is no information yet whether the GOR will consider including the sector in the master Program.

The Russian Feed Union encourages the Ministry of Agriculture to support its initiative on custom tariff regulation of the market of feed, including 1) low import tariffs for vitamins and amino-acids to zero; and 2) increase import tariffs for vitamins and minerals, premixes and feed for non-productive animals from 5 percent to 15 percent. This measure will reduce imports of premixes and vitamin/mineral additives, create competition in the local market, and increase investment attractiveness. Other initiatives of the Feed Union include starting the development of local microbiological industry, develop and adopt a Program for Deployment of the Russian Feed Sector for 2013-2020, and establish a program for producing local feed processing equipment and innovative technologies for feed production.

Chart 1



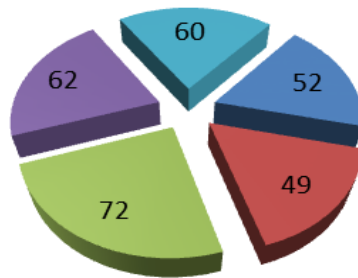
Source: Russian Ministry of Agriculture

Chart 2

Number of Feed Facilities by Production Capacity, in 1,000 MT

Annual Capacity

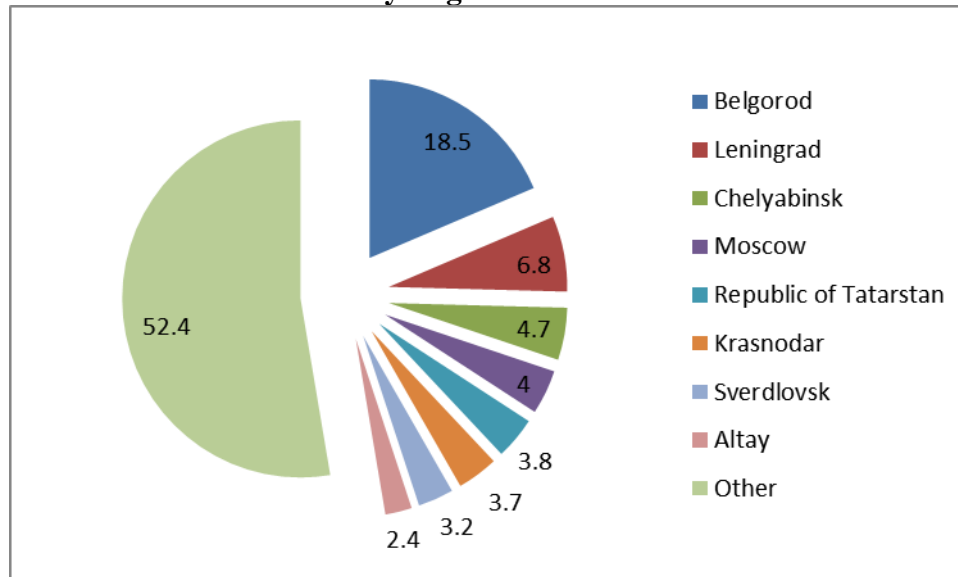
■ 100-300 ■ 50-100 ■ 20-50 ■ 10 to 20 ■ 5 to 10



Source: Russian Feed Union

Chart 3

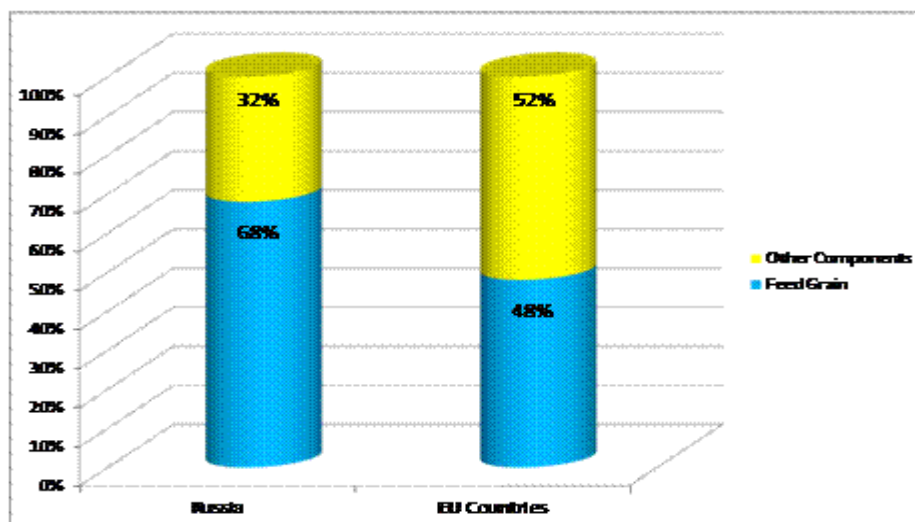
Share of Feed Production by Regions in 2013



Source: Russian Feed Union

Chart 4

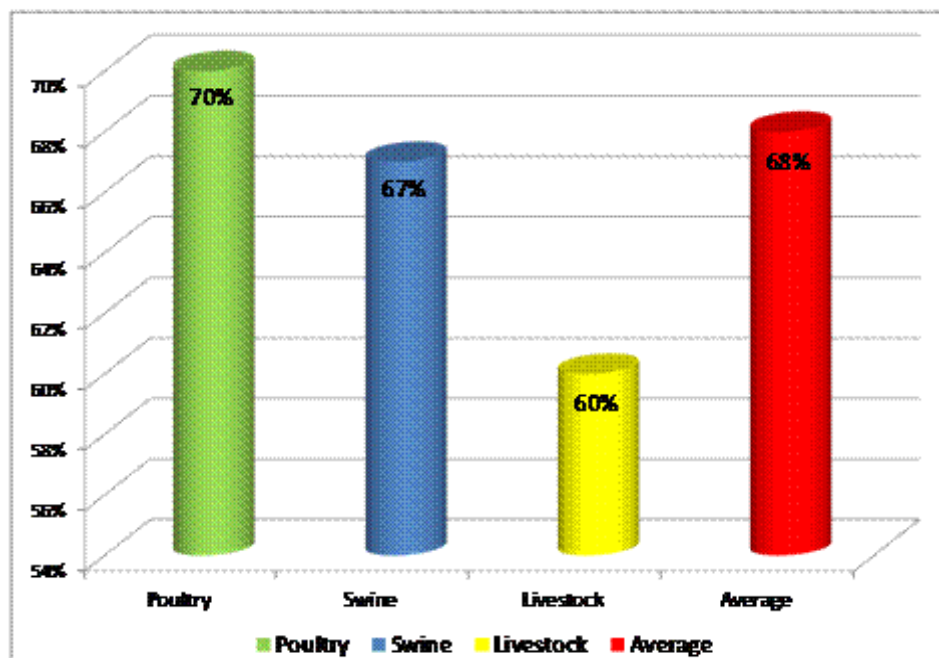
Share of Feed Grain in Compound Feeds in Russia and in the EU Countries



Source: Russian Feed Union

Chart 5

Share of Feed Grain in Feeds by Animal Category in Russia



Source: Russian Feed Union

